

**UPPER PENINSULA
SUBSTANCE ENFORCEMENT TEAM**

FINANCIAL STATEMENTS

For the Year Ended September 30, 2004

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Upper Peninsula Substance Enforcement Team		County Mackinac
Audit Date 9/30/04	Opinion Date 1/7/05	Date Accountant Report Submitted to State: 3/29/05		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Anderson, Tackman & Co, PLLC			
Street Address 102 W. Washington St, Suite 109	City Mackinac	State MI	ZIP 49855
Accountant Signature Michael A. [Signature] CPA			

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ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

Upper Peninsula Substance
Enforcement Team
P.O. Box 364
Gwinn, MI. 49841

We have audited the accompanying financial statements of the governmental activities of the Upper Peninsula Substance Enforcement Team as of and for the year ended September 30, 2004, which collectively comprise the Upper Peninsula Substance Enforcement Team's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Upper Peninsula Substance Enforcement Team's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Upper Peninsula Substance Enforcement Team as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, and budgetary comparison information on pages 5 through 8 and page 18 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a separate report to management dated January 7, 2005 on our consideration of the Upper Peninsula Substance Enforcement Team's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing

Upper Peninsula Substance
Enforcement Team
P.O. Box 364
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the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Upper Peninsula Substance Enforcement Team's basic financial statements. The schedules listed as additional information in the accompanying table of contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements of the Upper Peninsula Substance Enforcement Team. Such information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

January 7, 2005

UPPER PENINSULA SUBSTANCE ENFORCEMENT TEAM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Upper Peninsula Substance Enforcement Team's financial performance provides an overview of the Upper Peninsula Substance Enforcement Team's financial activities for the year ended September 30, 2004. Please read it in conjunction with the financial statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

- Net assets for the Upper Peninsula Substance Enforcement Team as a whole decreased by \$10,192 as a result of this year's operations.
- The general fund reported a decrease in fund balance of \$53,673. This is \$53,673 lower than the forecasted decrease of \$-0-.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 9 and 10) provide information about the activities of the Upper Peninsula Substance Enforcement Team as a whole and present a longer-term view of the Upper Peninsula Substance Enforcement Team's finances. Expenditure schedules for each Upper Peninsula Substance Enforcement Team Program start on page 20. These statements report the Upper Peninsula Substance Enforcement Team's operations in more detail than the Agency-wide statements showing expenditures for each program by main expense category.

Reporting the Upper Peninsula Substance Enforcement Team as a Whole

Our analysis of the Upper Peninsula Substance Enforcement Team as a whole begins on page 6. One of the most important questions asked about the Upper Peninsula Substance Enforcement Team's finances is "Is the Upper Peninsula Substance Enforcement Team as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Upper Peninsula Substance Enforcement Team as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Upper Peninsula Substance Enforcement Team's *net assets* and changes in them. You can think of the Upper Peninsula Substance Enforcement Team's net assets - the difference between assets and liabilities - as one way to measure the Upper Peninsula Substance Enforcement Team's financial health, or *financial position*. Over time, *increases or decreases* in the Upper Peninsula Substance Enforcement Team's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Upper Peninsula Substance Enforcement Team's client base and the condition of the Upper Peninsula Substance Enforcement Team's capital assets, to assess the *overall financial health* of the Upper Peninsula Substance Enforcement Team.

All of the Upper Peninsula Substance Enforcement Team's activities are reported as governmental activities, detailed in the statement of net assets and the statement of activities. All of the Upper Peninsula Substance Enforcement Team's basic services are reported here. Upper Peninsula Substance Enforcement Team activities are primarily funded by state and local sources of funds and forfeitures.

UPPER PENINSULA SUBSTANCE ENFORCEMENT TEAM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

Reporting on the Upper Peninsula Substance Enforcement Team's General Fund

All Upper Peninsula Substance Enforcement Team programs and services are reported in the General Fund. Our analysis of the Upper Peninsula Substance Enforcement Team's general fund begins on page 20. These financial statements provide detailed information on Upper Peninsula Substance Enforcement Team's expenditures by reporting unit.

- *Governmental funds* – All of the Upper Peninsula Substance Enforcement Team's services are reported in a single governmental fund, which details how money flows into and out of the fund, and the balances left at year-end that is available for spending. The report uses an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed *short-term view* of the Upper Peninsula Substance Enforcement Team's general government operations and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Upper Peninsula Substance Enforcement Team's programs.

The Upper Peninsula Substance Enforcement Team as a Whole

Table 1 provides a summary of the Upper Peninsula Substance Enforcement Team's net assets as of September 30, 2004 and 2003.

Table 1 Net Assets		
	Governmental Activities - 2004	Governmental Activities - 2003
Current and other assets	\$227,905	\$294,819
Capital assets, net	<u>96,522</u>	<u>53,041</u>
Total Assets	<u>324,427</u>	<u>347,860</u>
Current liabilities	\$ 69,688	\$ 82,929
Non-current liabilities	-	-
Total Liabilities	<u>69,688</u>	<u>82,929</u>
Net Assets:		
Invested in capital assets, net of related debt	\$ 96,522	\$ 53,041
Restricted	-	-
Unrestricted	<u>158,217</u>	<u>211,890</u>
Total Net Assets	<u>\$254,739</u>	<u>\$264,931</u>

Net assets of the Upper Peninsula Substance Enforcement Team's governmental activities stood at \$254,739. *Unrestricted* net assets—the part of net assets that could be used to finance day-to-day activities without constraints established by debt covenants, enabling legislation, or other legal requirements stood at \$158,217.

The results of this year's operations for the Upper Peninsula Substance Enforcement Team as a whole are reported in the Statement of Activities (see Table 2), which shows the changes in net assets for fiscal year 2004 and revenue and expense in fiscal year 2004 compared to revenue and expense in fiscal 2003.

UPPER PENINSULA SUBSTANCE ENFORCEMENT TEAM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

Table 2
Change in Net Assets

	<u>Governmental Activities – 2004</u>	<u>Governmental Activities - 2003</u>
Revenues		
Federal Sources	\$308,982	\$326,775
Local Sources	357,290	357,578
Other Sources	<u>123,985</u>	<u>78,912</u>
Total Revenues	<u>790,257</u>	<u>763,265</u>
Program Expenses		
Operating expenditures	796,262	796,055
Forfeiture expenditures	4,187	18,807
Capital outlay	-	5,211
Total Expenses	<u>800,449</u>	<u>820,073</u>
Increase (decrease) in net assets	(10,192)	(56,808)
Net assets, beginning	<u>264,931</u>	<u>321,739</u>
Net Assets, Ending	<u>\$254,739</u>	<u>\$264,931</u>

The Upper Peninsula Substance Enforcement Team's total revenues were \$790,257. The total cost of all programs and services was \$800,449, leaving a decrease in net assets of \$10,192. Our analysis below considers in more detail the operation of the Upper Peninsula Substance Enforcement Team's programs (in governmental activities) during 2004.

Governmental Activities

To understand the operation of the Upper Peninsula Substance Enforcement Team, its programs and services can be seen as falling into one broad category: those basic to local public safety relating to substance enforcement in the Upper Peninsula. The Upper Peninsula Substance Enforcement Team's basic public safety services are funded by state grants, local funding and forfeitures. Local funding consists of local government contributions.

THE UPPER PENINSULA SUBSTANCE ENFORCEMENT TEAM'S FUNDS

As the Upper Peninsula Substance Enforcement Team completed the year, its governmental funds (as presented in the balance sheet on page 9) reported a fund balance of \$158,217 and decrease of \$53,673 from the beginning of the year.

General Fund Budgetary Highlights

The Upper Peninsula Substance Enforcement Team creates a budget based on the Grant Budget for the year. This budget does not include other revenues and expenditures.

The actual revenues were \$65,557 greater than the budget and actual expenditures were \$119,229 greater than budgeted.

UPPER PENINSULA SUBSTANCE ENFORCEMENT TEAM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2004, the Upper Peninsula Substance Enforcement Team had \$96,522 invested in a variety of capital assets including land, buildings, and other equipment. (See table 3 below)

Table 3
Capital Assets at Year-End
(Net of Depreciation)

	<u>Governmental</u> <u>Activities – 2004</u>	<u>Governmental</u> <u>Activities – 2003</u>
Land	\$ 5,000	\$ -
Buildings	65,011	-
Equipment and furnishings	26,511	53,041
Land improvements	-	-
Construction in progress	-	-
Totals	<u>\$96,522</u>	<u>\$53,041</u>

During the fiscal year the Upper Peninsula Substance Enforcement Team purchase a building for \$71,975 including of minor improvements to the facility; the building was purchased with fund balance. The also had \$28,494 in depreciation expense for the fiscal year.

Debt

At year-end, the Upper Peninsula Substance Enforcement Team had \$-0- in long term liabilities at year end.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The Upper Peninsula Substance Enforcement Team's management staff considers their grant funding as the only factor which may have a bearing on the next year's revenue and costs when setting the new budget.

CONTACTING THE UPPER PENINSULA SUBSTANCE ENFORCEMENT TEAM'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Upper Peninsula Substance Enforcement Team's finances and to show the Upper Peninsula Substance Enforcement Team's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Upper Peninsula Substance Enforcement PO BOX 364, Gwinn, MI 49841.

Upper Peninsula Substance Enforcement Team
Governmental Funds Balance Sheet / Statement of Net Assets
September 30, 2004

	Balance Sheet	Adjustments	Statement of Net Assets
ASSETS:			
Current Assets			
Cash and cash equivalents	\$ 49,663	\$ -	\$ 49,663
Accounts receivable	4,565	-	4,565
Due from federal government	61,048	-	61,048
Due from local government units	112,629	-	112,629
Total Current Assets	<u>227,905</u>	<u>-</u>	<u>227,905</u>
Non Current Assets			
Capital assets - net	-	96,522	96,522
Total Non Current Assets	<u>-</u>	<u>96,522</u>	<u>96,522</u>
TOTAL ASSETS	<u>\$ 227,905</u>	<u>96,522</u>	<u>324,427</u>
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 8,208	-	8,208
Due to state	44,069	-	44,069
Due to local governmental units	16,979	-	16,979
Deferred forfeiture	432	-	432
Total Current Assets	<u>69,688</u>	<u>-</u>	<u>69,688</u>
Non Current Liabilities			
Notes payable	-	-	-
Total Non Current Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>69,688</u>	<u>-</u>	<u>69,688</u>
FUND BALANCE / NET ASSETS			
Fund Balance			
Unrestricted	158,217	(158,217)	-
TOTAL FUND BALANCE	<u>158,217</u>	<u>(158,217)</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 227,905</u>		
Net Assets			
Invested in capital assets - net of related debt		96,522	96,522
Unrestricted		158,217	158,217
TOTAL NET ASSETS		<u>\$ 96,522</u>	<u>\$ 254,739</u>

The notes to the financial statements are an integral part of this statement.

Upper Peninsula Substance Enforcement Team
Governmental Fund Statement of Revenues, Expenditures and Changes
in Fund Balance / Statement of Activities
For the year ended September 30, 2004

	Modified Accrual Basis	Adjustments	Statement of Activities
REVENUES:			
Federal sources	\$ 308,982	\$ -	\$ 308,982
Local sources			
Contributions	339,790	-	339,790
Grants	17,500	-	17,500
Other sources			
Forfeitures	113,332	-	113,332
Restitution	2,665	-	2,665
Interest income	582	-	582
Reimbursements	7,406	-	7,406
TOTAL REVENUES	<u>790,257</u>	<u>-</u>	<u>790,257</u>
EXPENDITURES			
Operating expenses	780,241	16,021	796,262
Forfeiture expenses	4,187	-	4,187
Capital outlay	59,502	(59,502)	-
TOTAL EXPENDITURES	<u>843,930</u>	<u>(43,481)</u>	<u>800,449</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	<u>(53,673)</u>	<u>43,481</u>	<u>(10,192)</u>
FUND BALANCE / NET ASSETS - OCTOBER 1st	211,890	53,041	264,931
FUND BALANCE / NET ASSETS - SEPTEMBER 30th	<u>\$ 158,217</u>	<u>\$ 96,522</u>	<u>\$ 254,739</u>

The notes to the financial statements are an integral part of this statement.

UPPER PENINSULA SUBSTANCE ENFORCEMENT TEAM

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Upper Peninsula Substance Enforcement Team is an unincorporated interagency of numerous law enforcement agencies in Upper Michigan. The participating agencies entered into this agreement to create the Upper Peninsula Substance Enforcement Team for the purpose of combining their efforts towards the enforcement of narcotics and controlled substance laws of the State of Michigan.

The financial statements of the Upper Peninsula Substance Enforcement Team have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant of these accounting policies established in GAAP and used by the Upper Peninsula Substance Enforcement Team are described below.

(1) REPORTING ENTITY

In evaluating the Upper Peninsula Substance Enforcement Team as a reporting entity, management has addressed all potential component units (traditionally separate reporting units) for which the Upper Peninsula Substance Enforcement Team may or may not be financially accountable and, as such, be includable within the Upper Peninsula Substance Enforcement Team's financial statements.

(2) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE FINANCIAL STATEMENTS:

The Upper Peninsula Substance Enforcement Team's basic financial statement is government-wide (reporting the Upper Peninsula Substance Enforcement Team as a whole). All the Upper Peninsula Substance Enforcement Team's operations are classified as governmental activities.

In the government-wide Statement of Net Assets, the governmental columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Upper Peninsula Substance Enforcement Team's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The Upper Peninsula Substance Enforcement Team first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of the Upper Peninsula Substance Enforcement Team's functions. The functions are supported by state grants, local contributions and forfeitures. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. The net costs (by function or business-type activity) are normally covered by general revenue.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

The government-wide focus is more on the sustainability of the Upper Peninsula Substance Enforcement Team as an entity and the change in the Upper Peninsula Substance Enforcement Team's net assets resulting from the current year's activities.

BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS:

Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Upper Peninsula Substance Enforcement Team:

General Fund - General Fund is the general operating fund and, accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds.

The Upper Peninsula Substance Enforcement Team reports the following major governmental funds:

The **General Fund** is the Upper Peninsula Substance Enforcement Team's primary operating fund. It accounts for all financial resources of the Upper Peninsula Substance Enforcement Team.

(3) BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Accrual

Governmental type activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified basis of accounting, revenues are recorded when they are both measurable and available. "Available" means collectible within the current period or within 60 days of the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. However, debt service expenditures, compensated absences, and claims and judgments are recorded only when payment is due.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

(4) FINANCIAL STATEMENT AMOUNTS

Budgets and Budgetary Accounting - The Upper Peninsula Substance Enforcement Team follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Upper Peninsula Substance Enforcement Team Administrator submits to the Upper Peninsula Substance Enforcement Team's Board of Health proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Opportunities exist for public comment during the budget process since all action by the Board of Health occurs in open public hearings.
- c. Pursuant to statute, prior to September 30 of each year the budget for the ensuing year is legally enacted through adoption of the Annual Operating Budget.
- d. The general statute governing Upper Peninsula Substance Enforcement Team budgetary activity is the State of Michigan Uniform Budgeting and Accounting Act. In addition to the provisions of the said Act and Board policy, general statements concerning the Board's intent regarding the administration of each year's budget are set out in the Annual General Appropriations Act. The Upper Peninsula Substance Enforcement Team's Board of Health, through policy action, specifically directs the Administrator not to authorize or participate in any expenditure of funds except as authorized by the Annual General Appropriations Act. The Board recognized that, in addition to possible Board sanctions for willful disregard of this policy, State statutes provide for civil liability for violations of the Annual General Appropriations Act.
- e. The Upper Peninsula Substance Enforcement Team adopts its Annual Budget on a departmental basis. At each level of detail, governmental operations are summarized into expenditure account groups. Funding sources are also identified and adopted at each level of detail. Budgetary control exists at the most detailed level adopted by the Board of Health, i.e., department for analytical purposes. A detailed line item breakdown is prepared for each program. Accounting, i.e., classification control, resides at the line item detail level.

Cash Equivalents and Investments – For the purposes of balance sheet classification and the statement of cash flows, cash and equivalents consist of demand deposits, cash in savings, money market accounts and short-term certificates of deposit with original maturity of three months or less. Investments are carried at fair value.

Capital Assets – Capital assets, which include property, plant, and equipment are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the Upper Peninsula Substance Enforcement Team as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years.

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their fair value on the date donated. Depreciation on all exhaustible capital assets is charged as an expense against their operations in government-wide statements. Accumulated depreciation is reported on government-wide statement of net assets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Land improvements	20 years
Building, structures and improvements	40 years
Equipment	5-20 years
Vehicles	5 years

Long-Term Liabilities: In the government-wide financial statements fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets.

Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reporting of certain assets, liabilities, revenues, and expenditures. Actual results may differ from estimated amounts.

NOTE B – CASH AND INVESTMENTS:

Cash and Equivalents

The book balance of cash and equivalents as reported on the balance sheet is \$49,663. The bank reported balance was \$47,232, of which \$47,232 was insured by the FDIC under Regulation 330.8. This regulation in summary provides that deposits of a governmental unit are insured for the lesser of the amount of the combined deposit or \$100,000 in every financial institution that is not a branch location that is a member of the FDIC in the following deposit accounts.

1. All demand non-interest bearing accounts in the name of the authorized or statutory custodian of public funds.
2. All savings deposits, which include regular passbook, daily, interest savings and time certificates of deposit in the name of the governmental unit's custodian.
3. Each bookholder is insured pro-rata for the lesser of the amount on deposit in the debt retirement account or \$100,000. Each separate debt issue or debt series is similarly insured.
4. The demand accounts and savings accounts as defined in items 1 and 2 above for those bank accounts in the name of a specific fund when all of the following criteria are applicable.
 - a. The fund is created by a specific State statute.
 - b. The functions of the fund are specified by State statute.
 - c. Money is allocated by State statute for the exclusive use of that fund and statutory function.

Statutory Authority

Act 196, PA 1997, authorized the Upper Peninsula Substance Enforcement Team to deposit and invest in:

- a. Bonds, securities, and other direct obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution eligible to be a depository of funds belonging to the State of Michigan under a law or rule of this state or the United States.

NOTE B – CASH AND INVESTMENTS (Continued):

- c. Commercial paper rated at time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments issued by the United States or an agency or instrumentality of the United States.
- e. Bankers' acceptance of United States banks.
- f. Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the Investment Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

The Upper Peninsula Substance Enforcement Team's investments are in accordance with statutory authority.

Michigan law prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

NOTE D – DUE FROM OTHER GOVERNMENTAL UNITS

The \$61,048 due from federal government represents accrued revenue, which has been reported as expenses relating to the Byrne Memorial Formula Grant Program.

The \$112,629 due from local government units represents the forfeited cash proceeds from the sale of property that is held by the City of Escanaba in a third party fiduciary relationship according to state and federal law.

NOTE E – DUE TO OTHER GOVERNMENTAL UNITS:

The Upper Peninsula Substance Enforcement Team accounts for the transactions for all the different agencies in regard to the Byrne Memorial Formula Grant Program. The amount due these other governmental units is as follows:

Michigan State Police	\$44,069
County of Delta	3,308
City of Escanaba	6,682
City of Marquette	<u>6,989</u>
TOTAL	<u>\$61,048</u>

NOTE M – EXCESS EXPENDITURES OVER APPROPRIATIONS:

Public Act 621 provides that the Upper Peninsula Substance Enforcement Team shall not incur expenditures in excess of amounts appropriated. The following fund had expenditures over appropriations for the year ended September 30, 2004:

General Operating Fund	<u>\$119,229</u>
------------------------	------------------

NOTE N – CAPITAL ASSETS:

Capital asset activity of the Upper Peninsula Substance Enforcement Team for the current year was as follows:

	Beginning Balances 10/01/03	Additions	Deletions	Ending Balances 9/30/04
Land	\$ -	\$ 5,000	\$ -	\$ 5,000
Land Improvements	-	-	-	-
Buildings	-	66,975	-	66,975
Equipment	<u>132,602</u>	<u>-</u>	<u>-</u>	<u>132,602</u>
	<u>132,602</u>	<u>71,975</u>	<u>-</u>	<u>204,577</u>
Less Accumulated Depreciation:				
Land Improvements	-	-	-	-
Buildings	-	(1,974)	-	(1,974)
Equipment	<u>(79,561)</u>	<u>(26,520)</u>	<u>-</u>	<u>(106,081)</u>
	<u>(79,561)</u>	<u>(28,494)</u>	<u>-</u>	<u>(108,055)</u>
Total	<u>\$ 53,041</u>	<u>\$ 43,481</u>	<u>\$ -</u>	<u>\$ 96,522</u>

Required Supplemental Information

Upper Peninsula Substance Enforcement Team
Governmental Fund Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the year ended September 30, 2004

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:				
Federal sources	\$ 362,350	\$ 362,350	\$ 308,982	\$ (53,369)
Local sources				
Contributions	362,350	362,350	339,790	(22,561)
Grants	-	-	17,500	17,500
Other sources				
Forfeitures	-	-	113,332	113,332
Restitution	-	-	2,665	2,665
Interest income	-	-	582	582
Reimbursements	-	-	7,406	7,406
TOTAL REVENUES	<u>724,700</u>	<u>724,700</u>	<u>790,257</u>	<u>65,557</u>
EXPENDITURES				
Operating expenses	724,700	724,700	780,241	(55,541)
Forfeiture expenses	-	-	4,187	(4,187)
Capital outlay	-	-	59,502	(59,502)
TOTAL EXPENDITURES	<u>724,700</u>	<u>724,700</u>	<u>843,930</u>	<u>(119,229)</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>-</u>	<u>(53,673)</u>	<u>(53,672)</u>
FUND BALANCE / NET ASSETS - OCTOBER 1st	211,890	211,890	211,890	-
FUND BALANCE / NET ASSETS - SEPTEMBER 30th	<u>\$ 211,890</u>	<u>\$ 211,890</u>	<u>\$ 158,217</u>	<u>\$ (53,672)</u>

Additional Information

Upper Peninsula Substance Enforcement Team
Schedule of Operating Expenditures
For the year ended September 30, 2004

OPERATING EXPENDITURES		
Personnel	\$	620,024
Communications		10,649
Contractual		3,066
Supplies		38,168
Transportation		65,766
Utilities		6,067
Miscellaneous		36,501
TOTAL OPERATING EXPENDITURES	\$	<u>780,241</u>

Compliance Supplements



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE

WISCONSIN
GREEN BAY
MILWAUKEE

REPORT ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Upper Peninsula Substance Enforcement Team
PO Box 364
Gwinn, Michigan 49841

We have audited the financial statements of the Upper Peninsula Substance Enforcement Team as of and for the year ended September 30, 2004, and have issued our report thereon dated January 7, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Upper Peninsula Substance Enforcement Team's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting, that, in our judgment, could adversely affect the Upper Peninsula Substance Enforcement Team's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. These reportable conditions are described in a separate letter to management dated January 7, 2005.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in the amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Upper Peninsula Substance Enforcement Team's component unit financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. These instances are described in a separate letter to management of the Upper Peninsula Substance Enforcement Team dated January 7, 2005.

This report is intended solely for the information and use of management, state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, P.L.C.
Certified Public Accountants

January 7, 2005



ANDERSON, TACKMAN & COMPANY, P.L.C.

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Upper Peninsula Substance Abuse Team (U.P.S.E.T.)

Report to Management Letter

For the Year Ended September 30, 2004

U.P.S.E.T.

P.O. Box 364

Gwinn, MI. 49841-0364

In planning and performing our audit of the financial statements of U.P.S.E.T. for the year ended September 30, 2004, we considered its internal control structure for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect U.P.S.E.T.'s ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

REPORTABLE CONDITIONS

Fixed Assets

We found that Fixed Asset subsidiary records did not agree with the general ledger and that obsolete and new items were not reconciled to the subsidiary records. We recommend that a physical inventory be taken on the total fixed assets and reconciled back to the subsidiary records and general ledger. Also, we recommend that the Road Commission update these on a regular basis.

The following comments are not reportable conditions as defined by the AIPCA but are management points for which we feel consideration should also be given.

INSTANCES OF NON-COMPLIANCE

Uniform Budgeting and Accounting Act (P.A. 621)

The State of Michigan has enacted Public Act 621, the Uniform Budgeting and Accounting Act, to provide for a system of uniform procedures for the preparation and execution of budgets in local units of government. The purpose of P.A. 621 is to require that all local units of government adopt balanced budgets, to establish responsibilities and define the procedure for the preparation, adoption and maintenance of the budget, and to require certain information for the budget process, including data for capital construction projects. The major provisions of P.A. 621 are as follows:

U.P.S.E.T.
Gwinn, MI. 49841-0364

1. Local Units of government must adopt a budget.
2. The budget, including accrued deficits and available unappropriated surpluses, must be balanced.
3. The budget must be amended when necessary.
4. Debt shall not be entered into unless the debt is permitted by law.
5. Expenditures shall not be incurred in excess of the amount appropriated.
6. Expenditures shall not be made unless authorized in the budget.
7. Violations of the act, disclosed in an audit of the financial records, in the absence of reasonable procedures shall be filed with the State Treasurer and reported to the Attorney General.

U.P.S.E.T. was found to be in violation of the legal and contractual provisions of Public Act 621 in certain individual funds as enumerated upon in the footnotes.

OTHER COMMENTS AND RECOMMENDATIONS

Segregation of Duties

Due to the small staff size of U.P.S.E.T. the proper segregation of duties in the accounting applications is not always practical. The most critical areas are cash and cash management, where the danger that intentional or unintentional errors could be made and go undetected for a period of time exists. To alleviate this condition, the Board reviews financial reports at their board meetings and has adopted a policy regarding their involvement in the check issuance process.

This report is intended solely for the information and use of U.P.S.E.T.'s management, and others within the Administration.

We appreciate and would like to thank U.P.S.E.T.'s staff for the cooperation and courtesy extended to us during our audit. We would be pleased to discuss any comments or answer any questions regarding our audit with you at your convenience.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

January 7, 2005



ANDERSON, TACKMAN & COMPANY, P.L.C.

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January 7, 2005

Upper Peninsula Substance Enforcement Team
PO Box 364
Gwinn, MI 49841

We have audited the financial statements of the Upper Peninsula Substance Enforcement Team for the year ended September 30, 2004, and have issued our report thereon dated January 7, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the internal control structure over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management of the appropriateness of accounting policies and their application. The significant accounting policies used are described in the Footnotes of the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Upper Peninsula Substance Enforcement Team
Gwinn, MI 49841

Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded, either individually or in the aggregate, indicate matters that could have a significant effect on the financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principal to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Conclusion

This information is intended solely for the use of the Board and management and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLLC
Certified Public Accountants